

Board of Investment Trustees
Montgomery County Employees' Retirement System

STATEMENT OF INVESTMENT POLICY FOR COMMINGLED/MUTUAL FUNDS
(ADDENDUM TO BOARD'S STATEMENT OF INVESTMENT POLICY)

The Board of Investment Trustees adopts this policy statement as a guide to the exercise of its stewardship over the investment of the Employees' Retirement System (ERS) assets that are invested in commingled or mutual funds.

INVESTMENT OBJECTIVE

As a plan fiduciaries, the Board must discharge its duties with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purpose. This standard of care includes diversifying the investments of the retirement system to minimize the risk of large losses, unless it is clearly not prudent to diversify under the circumstances.

Investment in commingled and mutual funds presents investment options to maximize the Board's diversification plan and asset allocation strategy. The Board of Investment Trustees adopts this policy statement as a guide to the exercise of its stewardship over the investment of the ERS assets that are invested in commingled or mutual funds.

INVESTMENT OVERSIGHT

The Board may invest or will permit an investment manager to invest the assets of the ERS in commingled or mutual funds it considers prudent within the policies set by the Board. Investment objectives for monies invested in commingled or mutual funds are stated in the fund manager's prospectus, declaration of trust or other governing documents. Prior to approving any investment manager policies governing mutual or commingled funds, the Board will perform an analysis and due diligence of any substantive differences between the Board's policies and the investment manager's policies. This analysis and due diligence will permit full consideration and reconciliation of any substantive investment differences between the Board's and the investment manager's policies. The analysis and due diligence will include, but not be limited to, such matters as fund diversification, international investing, types of securities in the portfolio, hedging strategy, position limits, liquidity, use of derivatives, and the like.

Selection of any investment manager of commingled or mutual funds continues to be subject to the Board's **Procurement Policy**.

Further, the Board will establish an asset allocation policy limit from time to time based on analysis of the ERS' liability structure and expected market conditions over a five-to-ten year horizon. These policy levels will be designated in writing and will include acceptable ranges of exposure for primary asset classes.

1. Rebalancing Program - Implementation of the Rebalancing Program can be benefited from well-diversified mutual and commingled fund investments. The Board will establish a rebalancing policy that will monitor the asset class levels of the fund. This policy will be in writing and the rebalancing will become effective once a specified threshold level has been achieved. The Board will direct the staff/manager to execute the rebalancing of assets within a reasonable time frame.
2. Authorized Investment Managers - By County statute, all funds must be managed by external investment managers who serve at the pleasure of the Board. These managers have full discretion over acquisitions and dispositions of investments.
3. Authorized Investments - The Board may permit an investment manager to invest in securities as defined within their investment prospectus, declaration of trust or other governing documents predicated

on the Board's determination that investment objectives of the mutual or commingled fund are substantively aligned with the Board's investment policies.

4. Indicia of Ownership - By County statute, the indicia of ownership of the assets must be maintained within the jurisdiction of U.S. district courts except as permitted by County regulation consistent with federal regulations. The relevant federal regulation permits indicia of ownership to be maintained by a foreign securities depository or bank which is supervised by an authorized foreign government agency or regulatory authority, so long as the depository or bank recognizes the ERS's ownership of the assets, and the bank is liable to the ERS in the same manner as is a U.S. bank.

INVESTMENT RESTRICTIONS

The following restrictions will govern mutual and commingled fund investing:

1. Liability- The Board will not invest in securities in mutual or commingled funds having unlimited liability.
2. Liquidity- Commingled or mutual funds must demonstrate reasonable and efficient processes to ensure the liquidity of fund assets to the Board's satisfaction.
3. Derivatives- Generally, with respect to derivatives in a mutual or commingled fund, the Board will obtain sufficient information to assess the following: The fund's strategy with respect to derivatives in its portfolio; the extent of investment by the fund in derivatives; and other such information as would be deemed prudent. Specifically, the Board may invest in derivative securities within commingled or mutual funds that invest in derivatives. The Board will monitor the fund's notional value of all derivatives to determine whether the fund exceeds the Board's limits on derivative securities. The Board may delegate use of derivatives, based on its **Derivatives Policy** and, may amend that policy based on the investment fund managers' use of derivatives as described in their prospectus, written characteristics, or other governing documents. When the Board approves the use of investment manager objectives for derivatives, the investment manager will provide the Board with a quarterly report on use of derivatives in accordance with the Board's **Derivatives Policy**. Under no circumstances will derivatives be used by mutual or commingled fund managers in a speculative manner, or in such a way that the fund would be deemed a "commodity pool" as defined under the regulations of the Commodity Futures Trading Commission.

Adopted by the Board of Investment Trustees on: June 01 2001 (Res: 0106-04)